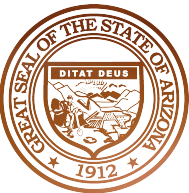


The background of the slide features a large, faint, circular seal of the State of Arizona. The seal contains the text "SEAL OF THE STATE OF ARIZONA" around the perimeter, "DITAT DEUS" in the center, and "1912" at the bottom. The central emblem depicts a landscape with a sun, mountains, and a river.

Fee Commission: Department of Environmental Quality

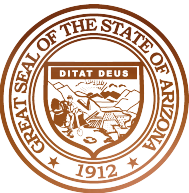
Prepared by OSPB

October 16, 2012



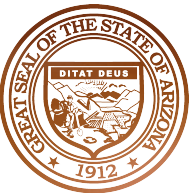
DEQ Divisions & Programs

- Air Quality
 - Air Quality Management and Analysis
 - Vehicle Emissions Control
- Water Quality
 - Underground Water Regulation
 - Surface Water Regulation
 - Drinking Water Regulation
- Waste
 - Waste Control and Management
 - Underground Storage Tank
 - Remediation (WQARF)
- Administration



Budget Directives

- For FY 2011 DEQ was tasked with replacing General Fund monies with fee revenues
- Exemption from rulemaking and emergency fee authority in FY 2011 to establish water program fees – Laws 2010, Chapter 265
- Exemption from rulemaking in FY 2012 to establish waste program fees – Laws 2011, Chapter 220



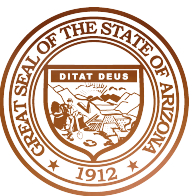
Timeline – Appropriation

Fiscal Year	General Fund Appropriation*	Other Fund Appropriation	Total Appropriation	Non-Appropriated Funds	Fund Transfers**
2008	\$33.0	\$70.3	\$103.3	\$52.0	\$39.6
2009	24.1	77.1	101.2	46.3	75.7
2010	13.2	68.3	81.6	35.7	41.6
2011	7.0	65.5	72.5	37.1	25.3
2012	7.0	64.9	71.9	42.6	22.7
2013	7.0	68.5	75.5	42.5	10.0

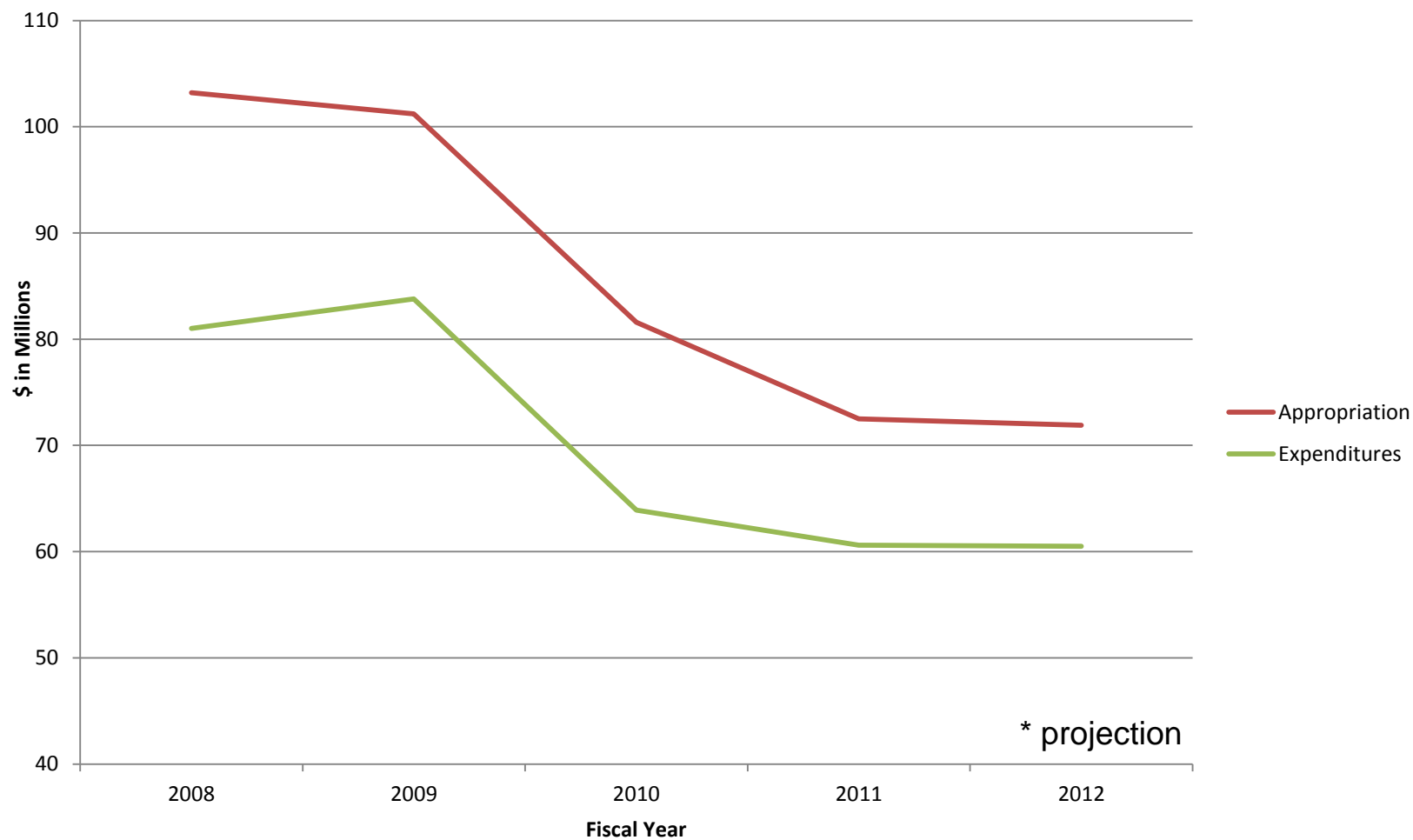
(\$ In Millions)

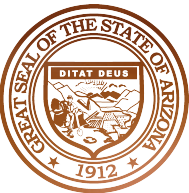
*Amount contains Corporate Income Tax appropriations to WQARF for FY 2008-2013 of \$15M, \$13M, \$7M, \$7M, \$7M, \$7M respectively.

** Total fund transfers \$215,047,200



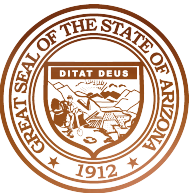
Appropriation vs. Expenditures





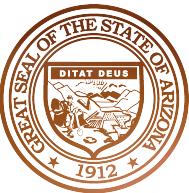
FY 2013 Ending Balances

Fund	Projected Ending Balance
Air Quality Fee Fund	\$4,125,900
Air Permits Administration Fund	\$4,018,200
Vehicle Emissions Inspection Fund	\$9,308,700
Water Quality Fee Fund	\$0
Solid Waste Fee Fund	\$445,400
Hazardous Waste Management Fund	\$1,330,400
Recycling Fund	\$1,343,700
Underground Storage Tank Revolving Fund	\$37,467,100



DEQ Divisions & Programs

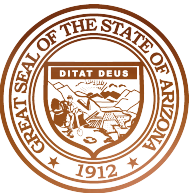
- **Air Quality**
 - **Air Quality Management and Analysis**
 - **Vehicle Emissions Control**
- **Water Quality**
 - **Underground Water Regulation**
 - **Surface Water Regulation**
 - **Drinking Water Regulation**
- **Waste**
 - **Waste Control and Management**
 - **Underground Storage Tank**
 - **Remediation (WQARF)**
- **Administration**



Air Quality Purpose

Administer Federal Clean Air Act – sets quality standards for non-attainment

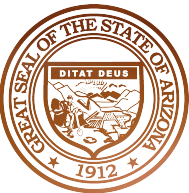
- Understand and Identify sources of air pollution
- Control and Monitor existing and future sources of pollutants
 - PM10 & PM2.5 (dust)
 - Carbon monoxide, sulfur dioxide, nitrogen dioxide
 - Ozone
 - Lead
 - Hazardous Air Pollutants



Air Quality Fee Inventory/Funds

5 fee categories support 3 funds

- Air Quality Fee Fund
 - Air Quality Fee – Vehicle License Tax
- Air Permits Administration Fund
 - Permit Processing Fee
 - Annual Permit Fee
 - Air Pollutant Emissions Fee
- Vehicle Emissions Inspection Fund
 - Vehicle emissions testing fees



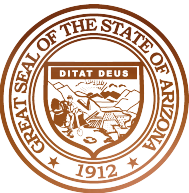
Air Quality Fee Fund

- Air Quality Fee

Fee Authority: Statutory-must be changed by law

Amount: \$1.50 per vehicle at time of registration

Last Change: September 1987

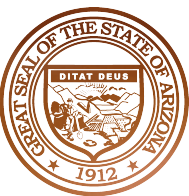


Air Quality Fee Fund

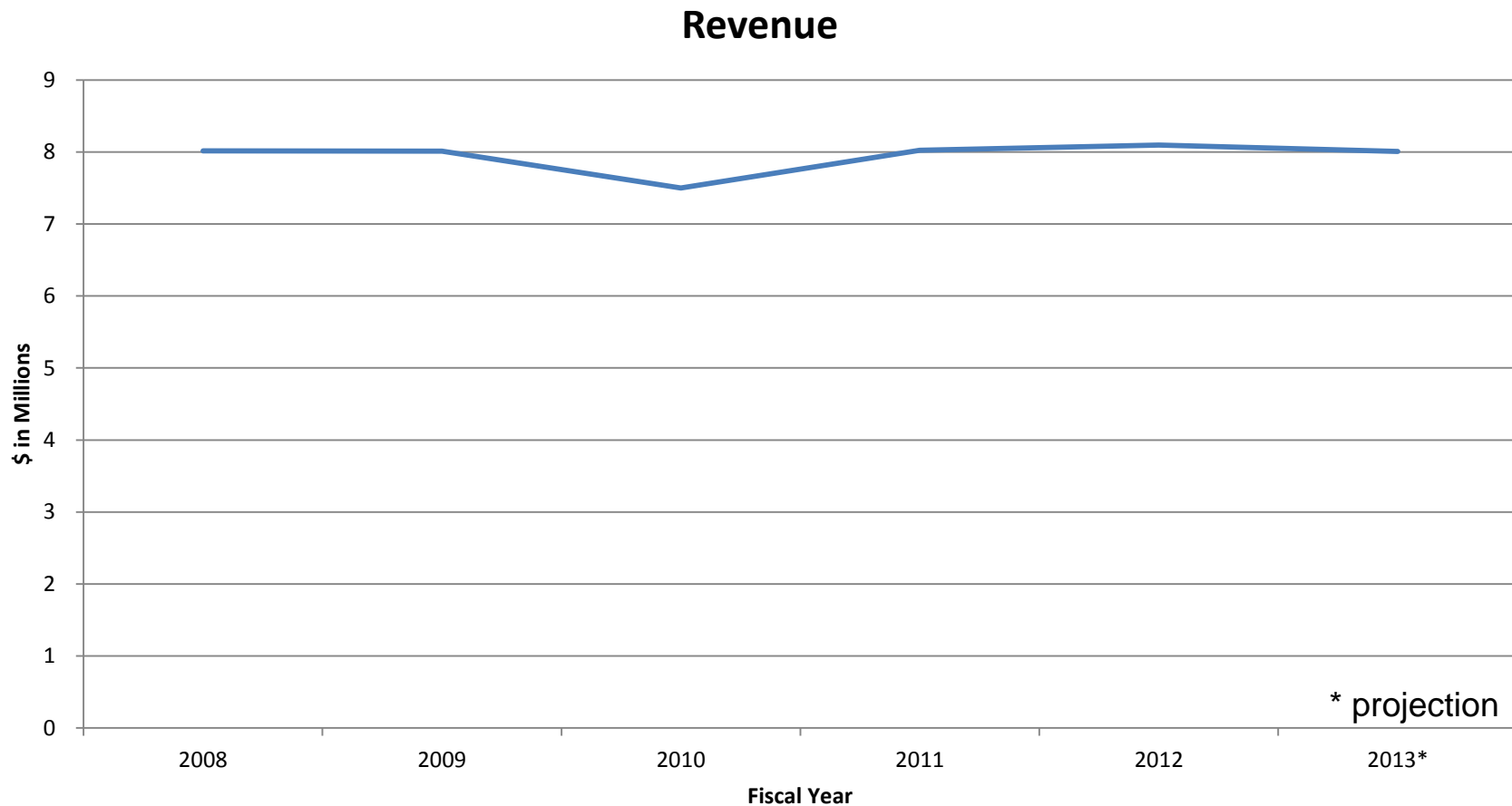
Uses are restricted by statute

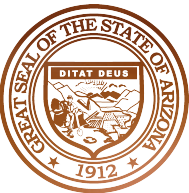
Monies in the air quality fund shall be used, subject to legislative appropriation, for:

- Air quality research, experiments and programs conducted by or for the department for the purpose of bringing area A or area B into or maintaining area A or area B in attainment status, improving air quality in areas of this state outside area A or area B and reducing emissions of particulate matter, carbon monoxide, oxides of nitrogen, volatile organic compounds and hazardous air pollutants throughout the state.
- Monitoring visible air pollution and developing and implementing programs to reduce emissions of pollutants that contribute to visible air pollution in counties with a population of four hundred thousand persons or more.
- Developing and adopting rules in compliance with (air pollution control) sections



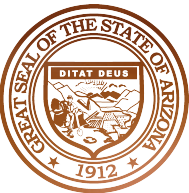
Air Quality Fee Fund Revenue





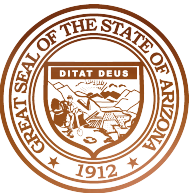
Air Quality Fee Fund

	FY 2011	FY 2012
+ Fee Revenue	7,987,600	8,027,700
+ Non-Fee Revenue	8,700	69,100
-Expenditures	(2,271,300)	(2,694,400)
- Fund Transfers (sweeps)	(629,600)	(768,000)
- W&M Transfer	(1,410,300)	(1,437,200)
- ADOA Transfer	(1,114,100)	(1,114,100)
- ADOT Transfer	(42,000)	(74,700)
- Intra-agency Transfers	(800,000)	0
Difference	1,729,000	2,008,400



Air Permits Administration Fund

- Permit Processing Fee
Fee Authority: Rule
Amount: \$144.90/hour
Last Change: FY 2007
- Annual Permit Fee
Fee Authority: Rule
Amount: \$810-69,150 depending on class of permit
Last Change: FY 2007
- Air Pollutant Emissions Fee
Fee Authority: Rule
Amount: \$41.53/ ton of regulated air pollutant
Last Change: FY 2007

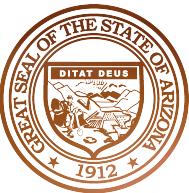


Air Permits Administration Fund

Uses are restricted by statute

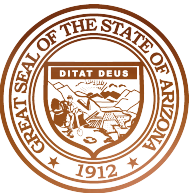
Monies in the fund collected shall be used for the following:

- In the case of fees collected all reasonable direct and indirect costs required to develop and administer the permit program requirements of title V of the clean air act.
- In the case of other fees, administering permits or revisions issued pursuant or conducting inspections.
- No more than five per cent of the monies in the fund may be used for the collection of monies, unless otherwise provided under title V of the clean air act.
- No more than five per cent of the monies in the fund may be used for general administration of the fund unless otherwise provided under title V of the clean air act.



Air Permits Administration Fund

- Processing Fee Components
 - Salary + ERE: 1,394 of 2,080 hours included in fee
 - Management/Admin: 400 hours per FTE
 - Federal Indirect Cost Match
 - Other Operating Expenses: Travel, equipment, etc.
 - Cost per hour of FTE \$144.90



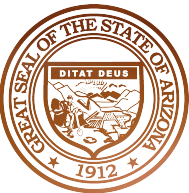
Air Permits Administration Fund

- Air Pollutant Emissions Fee

Calendar Years	Federal Presumptive Fee per Ton	DEQ Fee per Ton	DEQ % of Federal
1994-2001	\$29.88-35.71	\$33.00-39.24	110-112%
2002-2006	\$36.27-40.65	\$11.75-13.62	32-34%
2007-	\$42.03-46.73	\$38.25-41.53	89-91%

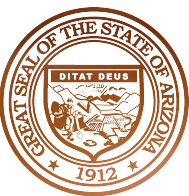
Emissions fee provides the most steady form of revenue to the Air Permits Administration Fund

- From 2002 to 2005 the amount of billable tons of pollution changed less than one percent



Air Permits Administration Fund

	FY 2011	FY 2012
+ Fee Revenue	8,385,300	7,292,300
+ Non-Fee Revenue	13,900	22,800
-Expenditures	(4,965,000)	(3,985,000)
- Fund Transfers (sweeps)	(2,338,200)	(923,400)
Difference	1,096,000	2,406,700

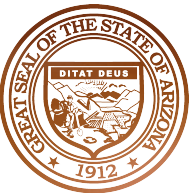


Air Quality Management & Analysis Sustainability

Revenues	FY 2012
Air Quality Fee Fund	\$8,096,800
Air Permits Administration Fund	7,315,100
Total	\$15,411,900
Expenditures	
Air Program Expenses	(\$9,305,400)
Fund Transfers (sweeps)	(1,691,400)
Total	(\$10,996,800)
Difference	\$4,415,100

FY 2013 Appropriation for Air Program is \$12,417,900

- Air Quality Fee Fund - \$5.4 million
- Air Permits Administration Fund - \$7.0 million



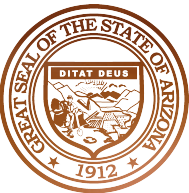
Vehicle Emissions Inspection Fund

Fee Authority: Fee amount set by Director; program cost recovery written in statute

Amount: \$9.50-27.75 per test depending on vehicle

Last Change: FY 2005

Methodology: Statute allows fees to cover contractor payment, fleet inspections, training costs, and other program related expenses. As contracts were renegotiated the fees were not adjusted.

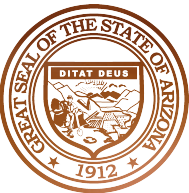


Vehicle Emissions Inspection Fund

Uses are restricted by statute

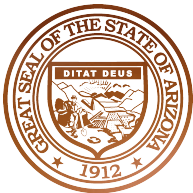
Monies in the emissions inspection fund may be used for the following:

- Enforcement of the provisions of this article related to fleet emissions inspections, exemptions, and certificates of waiver.
- Payment of contractual charges to independent contractors.
- Costs to the state of administering the emissions inspection services performed by the independent contractor, including inspection station auditing, contractor training and certification, and motorist assistance.
- Funding the state's portion of the catalytic converter program costs.
- Through June 30, 2005, conducting research studies to evaluate the feasibility and effectiveness of emission system control technologies, including the repair of vehicles participating in the studies.
- Other costs of administering and enforcing the provisions of this article.



Vehicle Emissions Inspection Fund

	FY 2011	FY 2012
+ Fee Revenue	36,304,000	38,454,500
+ Non-Fee Revenue	34,800	47,500
- Expenditures	(24,156,500)	(25,064,900)
- Fund Transfers (sweeps)	(8,510,200)	(8,039,900)
- Intra-agency Transfers	0	(3,145,700)
Difference	3,672,100	2,251,500

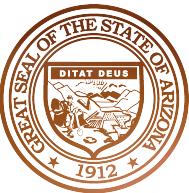


Sustainability of VEI Fund

Revenue	\$38,500,000
Contractor Payments (Gordon Darby)	\$21,119,500
Direct Program Costs	\$5,982,500
Travel Reduction Program Costs	\$1,252,300
Balance	\$10,145,700

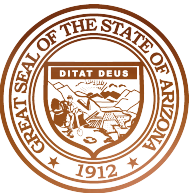
Revenue is 136% of Expenditures

The new VEI contract is under solicitation and could change the costs of this program and these projections.



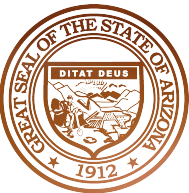
Air Program Conclusions

- Funds are a consistent revenue source
- The fees are providing more revenue than appropriation authority
- Air Program revenue has been used in recent fiscal years for fund transfers agency-wide
 - Total of approximately \$33 million from FY 2008-FY 2012



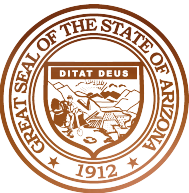
Air Program Conclusions

- VEI fees are not adjusted with contract changes
- Annual revenue surplus in VEI of about \$10 million
 - Breakeven reduces fees from \$9.50-27.75 to \$7-20.50
 - ADEQ has requested \$10 million in FY14 & FY15 to leverage e-technology (E-portal) for efficiency
- Consider use of surplus revenue to provide GF replacement long term
- Should fee revenue be used to expand clean air programs at DEQ?



DEQ Divisions & Programs

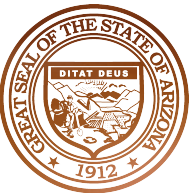
- Air Quality
 - Air Quality Management and Analysis
 - Vehicle Emissions Control
- **Water Quality**
 - **Underground Water Regulation**
 - **Surface Water Regulation**
 - **Drinking Water Regulation**
- Waste
 - Waste Control and Management
 - Underground Storage Tank
 - Remediation (WQARF)
- Administration



Water Quality Purpose

Administer federal environmental laws

- Aquifer Protection Program
 - Monitor and assess the quality of groundwater
- Clean Water Act
 - Regulating treatment and discharge of wastewater into surface water
- Safe Drinking Water Act
 - Ensure safe drinking water from public systems

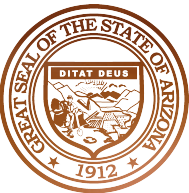


Water Quality Fee Fund

Uses are restricted by statute

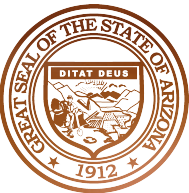
Monies in the water quality fee fund shall be used for the following purposes:

- The issuance of aquifer protection permits.
- The aquifer protection permit registration fee procedures.
- Dry well registration fee procedures.
- Technical review fee procedures.
- Inspection fee procedures.
- The issuance of permits under the Arizona pollutant discharge elimination system program.



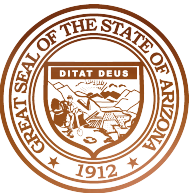
Water Quality Fee Fund Inventory

- Aquifer Protection Permits (APP)
- Arizona Pollution Discharge Elimination System (AZPDES)
- Other fees:
 - Drywell Registration
 - Public Water System Review
 - Subdivision Approval
 - Reclaimed Water Individual Permit



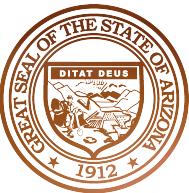
Aquifer Protection Permit Fees

- Annual Registration Fee
Fee Authority: Rule
Amount: \$250-8,500 depending on discharge volume & status
Last Change: FY 2011
- Ownership Transfer
Fee Authority: Rule
Amount: \$50
Last Change: FY 2006
- General Permit Type 2, 3, 4
Fee Authority: Rule
Amount: \$100-25,000 depending on permit type
Last Change: FY 2012



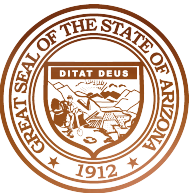
AZPDES Fees

- Individual Permits
Fee Authority: Rule
Amount: \$122/hour
Last Change: FY 2012
- General Permit/Annual Fee
Fee Authority: Rule
Amount: \$250-10,000 depending on permit
type/discharge volume
Last Change: FY 2012



Other Fees

- **Drywell Registration Fee**
Fee Authority: Rule
Amount: \$100
Last Change: FY 2011
- **Public Water System Design Review Fee**
Fee Authority: Rule
Amount: \$250-5,000 depending on type
Last Change: FY 2009
- **Subdivision Approval**
Fee Authority: Rule
Amount: \$500-1,000 depending on number of lots and type of water system
Last Change: FY 2011
- **Reclaimed Water Individual Permit**
Fee Authority: Rule
Amount: \$122/hour
Last Change: FY 2011

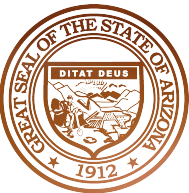


Water Program Methodology

Activity	Estimated Cost
Permitting	\$5,307,675
Compliance/Inspection	3,515,146
Administration	2,436,100
Total	\$11,258,921

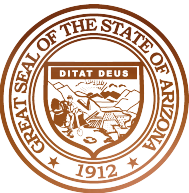
67% of Permitting and Administration to be covered by hourly Individual Permit Fees and flat rate General Permit Fees - 60% of Total Revenue

Remaining 33% of Permitting and Administration as well as Compliance/Inspection costs to be covered by annual Registration and Renewal Fees – 40% of Total Revenue



Water Program Methodology

- Individual Permit Fees
 - Salary + ERE: 1,394 of 2,080 hours included in fee
 - Management/Admin: 400 hours per FTE
 - Federal Indirect Cost Match
 - Other Operating Expenses: Travel, equipment, etc.
 - Cost per hour of FTE \$122
- General Permit Fees
 - Established based on average number of hours necessary to process the permit application, registration or report multiplied by the \$122 hourly rate

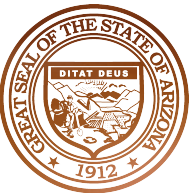


Water Program Sustainability

Revenues	FY 2012
Water Quality Fee Fund	\$7,861,400
Total	\$7,861,400
Expenditures	
Water Program Expenses	(\$5,420,600)
Fund Transfers (sweeps)	(812,200)
Total	(\$6,232,800)
Difference	\$1,628,600

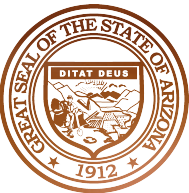
FY 2013 Appropriation for Water Program is \$10,393,900

Laws 2012, Chapter 303 provided \$1.8M from Emissions Inspection Fund
in lieu of WIFA funding used in previous fiscal years



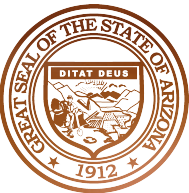
Water Program Conclusions

- Fee methodology is consistent across agency
- Prior to FY13, Air Program has subsidized fund transfers but not Water Program expenditures
 - VEI now paying for Drinking Water Program
- Lack of revenue data for Water Program fees (FY 2012 first year of fee implementation)
- Either Drinking Water Program fees or another revenue source may be needed to replace WIFA funding long-term



DEQ Divisions & Programs

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- **Waste**
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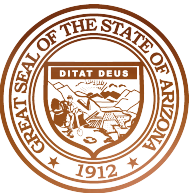
Waste Program Purpose

Ensure proper handling, disposal and clean-up of Solid Waste

- Landfill
- Used tires
- Septic waste

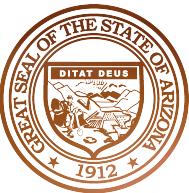
Administer Hazardous Waste Program to ensure proper waste management and remediation of regulated substances

- Ignitable: degreasers and solvents
- Corrosive: battery acid
- Reactive: cyanides and sulfides
- Toxic: lead and mercury



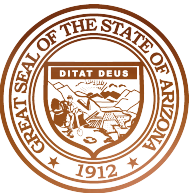
Solid Waste Fee Fund Inventory

- Plan Review Fee
- Landfill Registration Fee
- Waste Management Handling Fee
- Waste Tire Fee
- Septage Hauler Vehicle License Fee
- Self Certification Fee
- Tire Storage Site Registration Fee
- Biohazardous Medical Waste Transporter Fee
- General Permit Fee



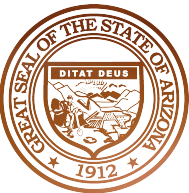
Solid Waste Fee Fund Inventory

- Plan Review Fee
Fee Authority: Rule
Amount: \$122/hour
Last Change: FY 2013
- Landfill Registration Fee
Fee Authority: Rule
Amount: \$1,250-12,500 depending on number of tons per year
Last Change: FY 2013
- Waste Management Handling Fee
Fee Authority: Rule
Amount: \$4.50 per ton
Last Change: FY 2013



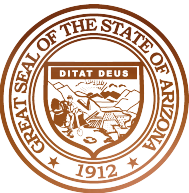
Solid Waste Fee Fund Inventory

- Waste Tire Fee
Fee Authority: Statute
Amount: 2% of purchase price not to exceed \$2 per tire
Last Change: FY 1990
- Septage Hauler Vehicle License Fee
Fee Authority: Rule
Amount: Initial license - \$225/ Annual renewal - \$75
Last Change: FY 2013
- Self Certification Fee
Fee Authority: Rule
Amount: Initial license - \$1,000/ Annual renewal - \$500
Last Change: FY 2013



Solid Waste Fee Fund Inventory

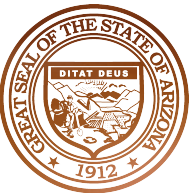
- Tire Storage Site Registration Fee
Fee Authority: Rule
Amount: Initial license - \$500/ Annual renewal - \$75
Last Change: FY 2013
- Biohazardous Medical Waste Transporter Fee
Fee Authority: Rule
Amount: \$122/hour
Last Change: FY 2013
- General Permit Fee
Fee Authority: Rule
Amount: Initial license - \$750-15,000/ Annual renewal - \$0-1,000
Last Change: FY 2013



Solid Waste Fee Fund

Uses are restricted by statute

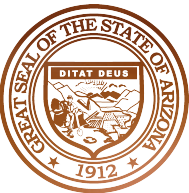
Monies in the fund are subject to legislative appropriation for solid waste control programs (including waste tire administration, solid waste permitting, special waste management, and solid waste landfill disposal) and as determined by the director.



Solid Waste Methodology

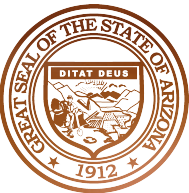
Activity	% Employee Time Allocated	Estimated Annual Fee Revenue	% of Revenue to Program Cost
Landfills	29.0%	\$409,000	17.8%
Special Waste	21.0%	\$198,000	8.6%
Tire Facilities	13.0%	\$287,700	12.5%
Bio Medical Waste	13.0%	\$135,250	5.9%
Transfer Facilities	5.0%	\$50,000	2.2%
Septage Haulers	3.0%	\$45,000	2.0%
General Activity	16.0%	\$0	0.0%
Recycling Fund	N/A	\$1,174,950	51.0%
Total	100.0%	\$2,299,900	100.0%

Plan incorporates use of Recycling Fund revenues to impose less burden on stakeholders; all pay less than cost to implement



Solid Waste Methodology

- Plan Review Fee
 - Salary + ERE: 1,452 of 2,080 hours included in fee
 - Management/Admin: 500 hours per FTE
 - Federal Indirect Cost Match
 - Other Operating Expenses: Travel, equipment, etc.
 - Cost per hour of FTE \$122



Hazardous Waste Management Fund Inventory

- Permit Review Fee

Fee Authority: Rule

Amount: \$136/ hour

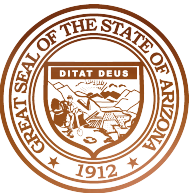
Last Change: FY 2013

- Waste Generation Fee

Fee Authority: Rule

Amount: \$27-270 per ton (SQG vs. LQG)

Last Change: FY 2013

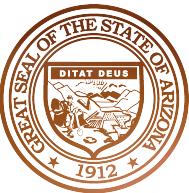


Hazardous Waste Management Fund

Uses are restricted by statute

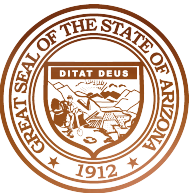
Monies in the hazardous waste management fund shall be used for the following purposes:

- Informing, educating and training the general public, treatment, storage and disposal facility operators, hazardous waste handlers and others.
- Supporting statewide hazardous waste planning and program development activities.
- Processing, issuing and maintaining permits for treatment, storage or disposal facilities.
- Compliance monitoring, investigation and enforcement activities pertaining to generating, transporting, treating, storing and disposing of hazardous waste under this article.
- Funding the pollution prevention technical assistance program.
- Administration of the pollution prevention program.



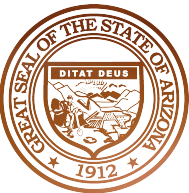
Hazardous Waste Methodology

- Permit Review Fee
 - Salary + ERE: 1,402 of 2,080 hours included in fee
 - Management/Admin: 500 hours per FTE
 - Federal Indirect Cost Match
 - Other Operating Expenses: Travel, equipment, etc.
 - Cost per hour of FTE \$136



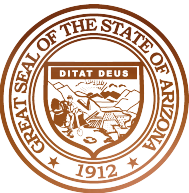
Hazardous Waste Methodology

- Waste Generation Fee
 - Designed to generate \$1.4M in revenue
 - Statute requires fee plan with least burden and cost to achieve regulatory objectives
 - Department calculated program time regulating Large Quantity Generators (LQG) vs. Small Quantity Generators (SQG)
 - Robust stakeholder process to determine which rates would work best



Recycling Fund Inventory

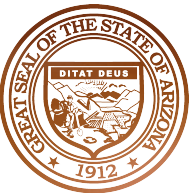
- Landfill Disposal Fee
Fee Authority: Statute
Amount: \$.25 per ton of solid waste at landfills
Last Change: 1999
- ADEQ is requesting \$1 million in appropriation authority in FY14 & FY15. The Recycling Fund is generating sufficient revenue to support the request.



Recycling Fund

Monies from the recycling fund shall be used for the following purposes:

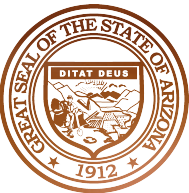
- Grants to or contracts with political subdivisions, nonprofit organizations or private enterprise for research, demonstration projects, market development and source reduction studies and implementation of the recommendations or reports prepared pursuant to this article.
- Public information, public education and technical assistance programs concerning litter control, recycling and source reduction.
- The collection and administration of monies in the fund.
- The administration of the Arizona Recycling Program
- The administration of the Arizona commerce authority's recycled market development program. At the end of each fiscal year, any funds not spent by the authority for this purpose shall be returned to the fund.
- The department's solid waste control program activities.



Waste Program Sustainability

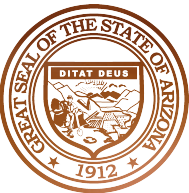
Projected Revenues	FY 2013 Expenditure Plan
Solid Waste Fee Fund	\$1,329,300
Hazardous Waste Management Fund	1,698,800
Recycling Fund	1,894,900
Total	\$4,923,000
Expenditures	
Waste Program Expenses	(\$4,145,500)
Total	(\$4,145,500)
Difference	\$819,200

FY 2013 Appropriation for Waste Program is \$4,145,500. These figures do not include the Used Oil Fund or UST.



Waste Program Conclusions

- Air Program has subsidized fund transfers but not Waste Program expenditures
- Fees need to continue to build before making adjustments (FY 2013 first year of fee implementation)
- Recycling Fund monies are sustaining the Waste Program in FY 2013
 - Restart Recycling Program as revenue improves
 - Department has requested \$1M appropriation for Recycling Program in FY 2014



All Program Conclusions

- The volatility of fee fund revenue would benefit from the use of a Department-wide funding source that is stable (GF replacement)
 - Air Quality Fee Fund (raising fee amount)
 - Vehicle Emissions Inspection Fund
- Revenues are still growing from new fees
 - Department operated at about 84% of appropriated level in FY 2012